



# Financial Matters

We help clients to maximize their financial well-being through education, communication and service that exceeds expectations.

Summer 2010

## Special points of interest:

- Our annual Client Appreciation Event will be held at Monmouth Park on August 6th. R.S.V.P. to Kate Tredennick at 732-224-9900 ex. 103
- We are still waiting on new estate tax legislation and will keep you updated.

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## Inflation Proof Your Portfolio

Even before the economic seizure we experienced at the end of 2008, you may have wondered when the low interest rates and all of the “easy money” policies were going to result in inflation. Then, after the 2008 economic seizure, we witnessed the extreme become even more extreme. Money printing significantly increased, the bank lending rates dropped to zero, and again, you probably thought, is this not the exact thing that creates inflation?

Yet, despite all of the blatant catalysts, the inflation rate has been anything but alarming... but wait. Are we not hearing that our

biggest bond buyer, China, is wary of our over-use of debt? Are we not just a couple of interest rate upticks away from concluding that, “the inflationary spiral we have been hearing about has begun?” Will there be a day of reckoning for devaluing our currency? Will runaway inflation become our nation's biggest challenge?

If runaway inflation occurs, how can we best protect ourselves against it? Let’s face it, we do not know for sure that it is coming, but it sure would not be a surprise. Here are a few ideas:

### Things to Consider:

**Real Assets** – Think “valuable” and “finite quantity.”

Real Estate – for instance, there is a finite amount of coastal real estate... the ocean makes sure that this remains a very “finite quantity.”

**TIPS (Treasury Inflation Protected Securities)** – These bond yields are tied to the Consumer Price

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## 5 Vital Economic Indicators

There are many indicators that economists follow and analyze when they make prognostications about the economy.

Following is information on 5 of the most important indicators and why.

### 1) Real Gross Domestic Product (GDP)

Real GDP is the value of all goods and services provided in a nation during a specific

time period. It is a comprehensive way to gauge the health of America. In the U.S.A. 70% of our GDP is driven by consumer spending.

### 2) M2 (Money Supply)

M2 Money Supply represents the aggregate total of all money a country has in circulation. It includes

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## 5 Vital Economic Indicators (cont'd)

bills and coins, demand deposit savings and checking accounts, travelers checks, assets in retail money markets and small money market mutual funds and certificates of deposit. Changes in M2 can lead to changes in the FED monetary policy including raising or lowering interest rates. The growth rate of the M2 can also indicate future economic activity.

### 3) Consumer Price Index (CPI)

The CPI measures changes in the prices paid for a sampling of goods and services by urban consumers for the specified month. It is a measure of cost-of-living changes and is the best indicator for inflation that we have. Changes in this indicator can also spur the Fed to take action on the monetary policy.

### 4) Producer Price Index (PPI)

The PPI is a group of indexes measuring the change in prices that U.S. producer companies receive in selling their goods and services. Sale prices from 25,000 establishments are tracked monthly from virtually all goods-producing sectors. This index is also an inflation measure and is published earlier in the month than the CPI. One other indicator within this index is crude oil prices. There is a strong correlation between move-

ments in crude prices and corporate earnings which can be ascertained from the PPI data.

### 5) The Consumer Confidence Survey

This is a gauge of the public's confidence about the health of the U.S. economy. Five questions are asked of a random sampling of 5,000 individuals. Surveyors ask consumers thoughts and feelings about business conditions, the labor market, consumer spending and economic growth, and their financial and employment expectations six months into the future. Responses for each question are either positive, negative or neutral. Survey results are an excellent leading indicator of consumer spending. When consumers feel confident they spend more.

These five important indicators lead the government and companies to make important decisions. Economists' prognostications are also determined by analyzing this data. As the great economist John Keneth Galbraith jokingly said, "Economics is extremely useful as a form of employment for economists."

## What Do You Know About America? Quiz

1. When was the Constitution of the United States ratified?

- A. May 29, 1776
- B. July 4, 1776
- C. May 29, 1790
- D. July 4, 1790

2. Which were the first and last states to approve the Constitution of the United States?

- A. New York and Massachusetts
- B. Delaware and Rhode Island
- C. North Carolina and Pennsylvania
- D. New Hampshire and Virginia

3. About how many people lived in the 13 colonies when the Declaration of Independence was approved by the Continental Congress?

- A. 1 million
- B. 2.5 million
- C. 3.5 million
- D. 5 million

4. Why was the Bill of Rights created?

- A. To better define individual's rights
- B. To better define what government could not do
- C. To win over opponents to the Constitution
- D. All of the above

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## Inflation Proof Your Portfolio (cont'd)

Index (CPI) and will increase or decrease as the CPI changes. In general, if goods cost more, these pay more and vice versa.

**Stocks and Indexed Annuities** – While inflation may cause stocks to suffer in the short term if things like cost of goods sold and borrowing costs increase for businesses, over the long term, stocks tend to keep your money growing ahead of inflation. *Stocks for the Long Run* author Jeremy Siegel points out that stock returns historically have been immune to the inflation rate over long stretches of time. Although rising prices could crimp profits in the short term, Siegel argues that companies – eventually – can pass on those costs to consumers, making inflation a wash for stock market returns. Please note that this is a generalization. There is no way to guarantee or predict the volatility and performance of any specific security.

**Stock investing involves risk including loss of principal.**

### What May Not Work:

**Cash or Minimal Interest Savings Accounts** – Storing money in savings accounts or, even worse, cash, is a losing proposition during high inflationary times. Just think about how much cheaper things like bread, stamps, and medical insurance were 10 to 15 years ago. If your money was under the mattress during that time, it definitely would not buy what it used to buy. On the other hand, if it were invested in appreciating assets, and it averaged an annual rate of 7%, it would have, approximately, doubled over a ten-year period (not including taxes or fees).

**Long-Term Bonds** – Inflation has a lot to do with bond rates and since rates are relatively low, we run the risk that rates will rise. That is bad for the current value of long-term bonds. You can think of it this way, if new bonds are being issued that pay higher rates than the ones you own, no one would want to buy yours except at a discounted price.

**Bonds are subject to market and interest rate risk if sold prior to maturity.**

**Bond values will decline as interest rates rise and are subject to availability and change in price.**

Finally, inflation-proofing your portfolio comes down to being invested in a diversified mix of assets that have a high probability of either keeping pace, or appreciating at a faster rate, than inflation. While cash reserves are vital for short-term financial security, the threat of inflation gives a good reason to keep long-term money invested in assets that have the potential to appreciate.

The opinions voiced in this material are for general information only and are not intended to provide specific advice or recommendations for any individual. To determine which investment(s) may be appropriate for you, consult your financial advisor prior to investing. All performance referenced is historical and is no guarantee of future results. All indices are unmanaged and cannot be invested into directly.

### Fascinating Financial Facts:

- According to the Economist magazine, in the U.S., the amount of government debt per person has risen from \$16,000 in 2001 to \$34,000 now. Household debt has gone up from \$27,000 to \$44,000 in that same time.
- Over the last 12 years, the Dow Jones Industrial Index has gained more points on the first trading day of the month than all other days combined.

~ Stock Trader's Almanac 2010



*"The most rewarding things you do in life are often the ones that look like they cannot be done."*

*~Arnold Palmer, Golfer*

*"Talent is cheaper than table salt. What separates the talented individual from the successful one is a lot of hard work."*

*Stephen King,  
Author*



## What Do You Know About America? Answers

- 1C: May 29, 1790
- 2B: Delaware was first and Rhode Island was last
- 3B: 2.5 million
- 4D: All of the above

### Client Corner

Barbara Kent is the author of "Success in the Words of the Master". The book will be available at bookstores and through Amazon.com in early October.

*The O'Meara Financial Group, Inc. is committed to maximizing our clients' financial well-being through education, communication and service that exceeds expectations. We provide personalized wealth planning and investment management services for individual investors and corporate retirement plans.*



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